

Executive Summary for a Single Project OCIP

What is an OCIP?

An Owner Controlled Insurance Program (OCIP) is a single insurance program, purchased and controlled by the owner, which insures the owner, general contractor, and all contractors performing work at the project site. In contrast, a traditional approach requires each contractor to supply their own insurance coverage.

The OCIP concept has been in use for the past thirty years but has only recently received widespread understanding and acceptance. Today, the OCIP concept is evaluated on most projects exceeding \$100 Million in construction cost due to the potential cost savings to the owner.

Under the terms of a single project OCIP, the owner typically arranges for Workers' Compensation, General Liability, and Builder's Risk coverages. OCIP's can also insure the following risks: Architects and Engineers Error's and Omissions, Pollution Liability, delays due to strikes and labor disputes (Force Mejeure), and subcontractor bonding programs.

These coverages apply only while the contractors are performing work on the owner's project and all premiums associated with these coverages are paid by the owner. In return for providing these coverages, the contractors remove their insurance costs from their bids. The owner realizes a cost savings by being able to pool and negotiate more favorable insurance rates than the individual contractors.

Why Should an Owner Consider an OCIP?

Cost Savings - *An owner can realize a pre-tax cost savings of 1-3% of total construction cost by sponsoring an OCIP. The cost savings are realized due to several factors:*

- By pooling all of the risks under a single program the owner is able to negotiate more favorable pricing and terms than individual contractors.*
- OCIP insurance underwriters are offering very favorable terms at the present time.*
- Contractors bids do not include overhead and profit loadings on the insurance costs.*
- Contractors workers' compensation loss experience as a whole has improved over the past three years due to increased safety efforts and more attention to mitigating worker's compensation claims.*

Why Should an Owner Consider an OCIP? (Continued)

Control of the Insurance Coverages - The owner has the security of knowing that insurance coverage is in place and the risks covered by the project insurance identify the owner as the first Named Insured under the policy. Other coverage benefits to the owner include:

- The owner has access to Higher Limits and Broader Coverages than carried by most contractors.
- The Limits of Insurance are dedicated solely to the owner's project.
- Liability coverage remains in place 3 years after project completion.
- Owner directs claim and litigation activities for losses occurring on the owner's project.
- Owner can keep lawsuits arising from the construction project from deteriorating the loss experience of the owner's normal insurance program.

Improved Public Relations

- The owner enables greater DBE/MBE participation by proving limits necessary to meet the owner's contractual requirements.
- Reduces the potential for a public relations problem from a disgruntled claimant.
- The OCIP coordinates the safety efforts of all contractors, leading to fewer accidents on the owner's project site.

How Much Cost Savings is in an OCIP & Where Does it Come From?

As cited earlier, the owner has the potential of reducing the construction costs for the project by 1-3%, or more. Additionally, there can be significant income and property tax advantages for the owner by sponsoring an OCIP.

The cost savings are realized by the owner's ability to secure insurance coverage at a cost less than that which would have been paid by the owner had each contractor provided their own insurance coverage and passed these costs on to the owner in their bid.

How Much Cost Savings is in an OCIP & Where Does it Come From ? (Continued)

The following summarizes the mechanics of the cost savings:

Contractor - Typically a contractor pays for insurance on a “guaranteed cost” basis, namely an insurance industry rate times the contractor’s payroll. In exchange for the premium payment, the insurance carrier agrees to pay for all losses under the policy up to the policy limit. While the contractor gets the benefit of having fixed insurance costs, they do not receive the benefit of any return premiums for having good loss experience.

At bid time, the contractor marks-up these insurance costs 10 - 15% for profit and overhead and passes the entire amount on to the owner as part of the bid amount.

Owner - Due to the amount of insurance premiums generated by insuring all of the contractors under a single OCIP, the owner is able to utilize a common risk management technique of maintaining a self-insured layer of loss and purchasing catastrophe insurance above this amount. This approach significantly reduces the fixed insurance costs normally paid by the contractors and allows the owner’s total cost of insurance to be predicated in large part by the amount of claim dollars generated within the self-insured layer of loss. Since the fixed costs only amount to about 20% of the total insurance premiums, the owner is able to realize the 1-3% cost savings by controlling the losses within the self-insured layer.

The cost savings potential varies by project and is heavily influenced by the following:

- *Owner and General Contractor Commitment to Project Site Safety*
- *Contractor Cooperation*
- *Realistic Pro-Forma Assumptions*
- *Legal Climate*
- *Other Work in Area*
- *Insurance Marketplace*
- *Effective OCIP Administration by Insurance Broker*

What Are The Risks To The Owner?

Owner Loses Money Under OCIP - This can occur due to unrealistic pro-forma assumptions, poor loss experience, and inability of insurance broker to negotiate adequate reductions in the contractors bids. By utilizing realistic pro-forma assumptions and aggressive negotiations with insurance underwriters, we have been able to substantially eliminate this risk from many projects.

Potential That OCIP Coverages Could Be Canceled During The Term of the Project

While this is a potential risk should the insurance marketplace “harden” during the term of the project, we have been able to negotiate several projects which limits the insurance companies right to cancel only for non-payment of premium.

Page 3 of 4

What Are The Risks To The Owner? (Continued)

The OCIP Can Impact the Construction Schedule - This is a rare situation. While the contractor is required to perform certain activities as part of the OCIP, the construction schedule is dictated by the project manager. Therefore, any impact that non-compliance with the OCIP

requirements would have on the construction schedule is up to the discretion of the project manager.

More probable is the situation where an owner has increased administrative burden because of poor administration of the OCIP by the insurance broker. By hiring a seasoned OCIP brokerage team, the owner can significantly reduce this potential.

Why Should an Owner Choose Aon Risk Services?

One key to every successful OCIP is a strong, competent insurance broker. Because of the tight project schedules and the variable of events which arise in implementing and administering an OCIP, an owner does not have the luxury of having the broker "learn on the job". If the owner chooses an inexperienced OCIP broker, it will cost the owner time and money. Therefore, at the cornerstone of our credentials is the strength of an organization which has administered over \$40 Billion in construction projects under OCIP's.

AON differentiates ourselves from our competition by:

- **Understanding the Construction Business.** Many of our OCIP's are serviced by individuals who specialize in construction, rather than other brokers which have their OCIP's handled by individuals with a general insurance background or specialize in manufacturing or service risks.
- **Producing Realistic Pro-Forma's.** Partly because of our knowledge of the construction insurance marketplace and partly because of the database we have been able to assemble from our various projects, we are able to produce realistic pro-forma assumptions. In fact, we are so confident in our projections that are willing to tie a portion of our compensation to achieving the results projected in our pro-forma's.
- AON has developed the **Integrated Project Management (IPM) Approach** to OCIP administration. This approach simply and clearly identifies the roles and responsibilities of the owner, general contractor, and AON.
- AON will produce a **Monthly Management Report** which gives you a monthly Profit & Loss Statement on the OCIP on a monthly basis. This report keeps you and the members of your team up to speed on the financial performance of the OCIP and truly becomes a tool for managing the safety results on the project.

The bottom line: The AON OCIP Unit is a team of highly committed individuals with construction experience, strong technical knowledge and a personal desire to deliver exceptional quality service. We welcome the opportunity to serve you.